

ADDRESS

OF

MR. THEODORE P. SHONTS

BEFORE THE

THIRD ANNUAL CONVENTION

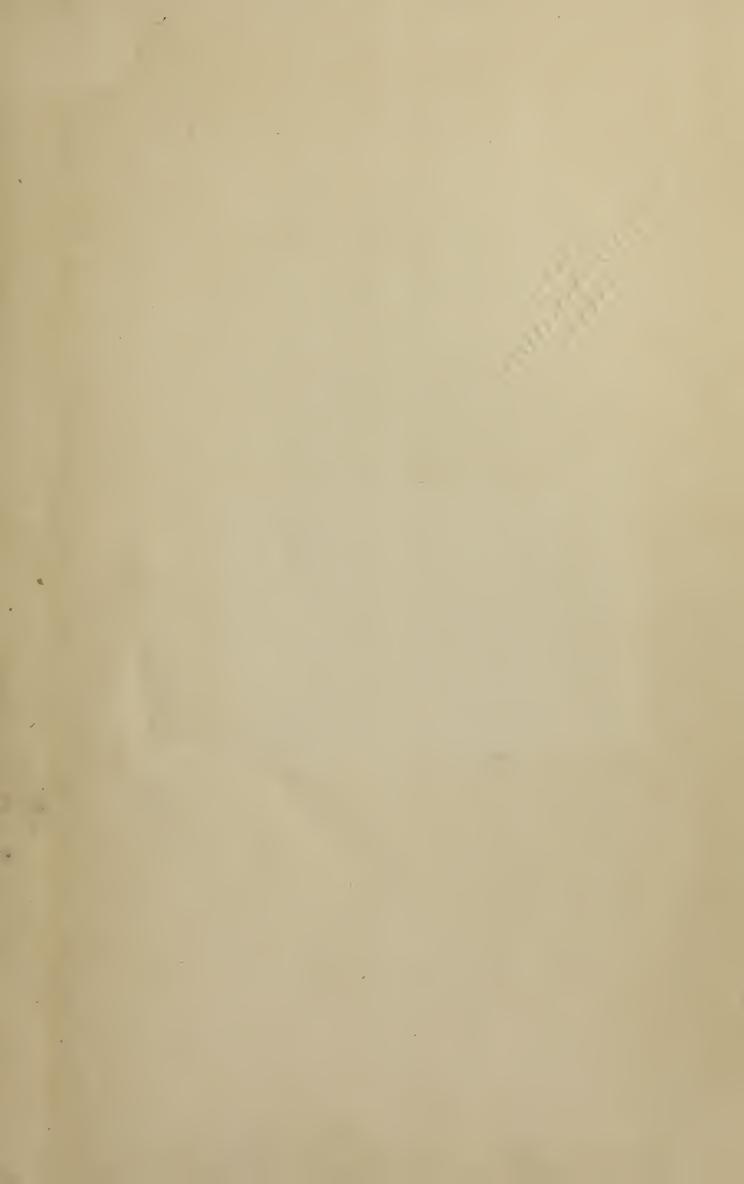
OF THE

Lakes-to-the-Gulf Deep Waterway Association

AT CHICAGO, ILLINOIS

OCTOBER 9, 1908.





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The Future of Rail and Water Transportation in the United States.

It is a great pleasure to be here today and I am glad of the opportunity to give you my views on a subject in which we are all deeply interested—The Future of Rail and Water Transportation in the United States.

I am no recent convert to the Deep Waterway Cause. I have believed in it and favored it from the first. When I had the pleasure of addressing the Chicago Commercial Club nearly two years ago, I urged that the enterprise be given greater attention because of the changing conditions, due to the construction of the Panama Canal.

The widening and deepening of the waterway built by nature between the Lakes and the Gulf has long since ceased to be a local or sectional question. It has become a matter of national, and in fact international, importance on account of the effect which it promises to have on our commerce with other countries, is therefore entitled to the active support of every patriotic American. Not satisfied with being the granary of the world, the United States has recently undertaken to become its workshop. Great as has been our gain in population, we have grown more rapidly in the production of manufactures and if we are to continue to advance we will be compelled to engage in the wars which come—wars not for the are to territory, but acquisition of secure to in international commerce. The country which has the

best transportation facilities will have a distinct advantage in such contests and the completion of the waterway in which you are interested will go far towards giving this country that advantage. The construction of a great inland harbor reaching from the Gulf to the Great Lakes will not only develop the whole Mississippi Valley until it becomes as great in manufacture as it is in agriculture, but it will aid in the further progress of the entire nation.

With the completion of its sister enterprise, the Panama Canal, the markets of Central and South America, which have been too long overlooked, will be brought to the very heart of our country. Ships will be able to load in Chicago, St. Louis, New Orleans, or intermediate points and deliver the cargo along both coasts of Central and South America without breaking bulk before vessels from European countries have more than fairly started on their journey. Nature and the Monroe Doctrine have given us an advantage in these markets which the people there appreciate. We should therefore avail ourselves of their friendly disposition before the merchants of Europe, who also recognize the situation and are seeking to counteract our advantages by extending and cementing their relations with these countries, become so firmly entrenched that it will require great effort to drive them out and secure that share of the trade which properly should be ours.

I think I fairly represent the general sentiment of their officers when I say that the Railroads of the country do not look upon your enterprise with unfriendly eyes. I know that, as President of The Chicago & Alton Railroad, one of whose main lines reaching from Chicago to

St. Louis will be paralleled its entire distance by the construction of your deep waterway, I can truthfully say that our Company will cordially welcome the early completion of your great undertaking. I favor it and we all favor it because we realize that this work when finished will make it possible, as nothing else short of the expenditure of appalling sums of money could, for us to handle the commerce which is certain to follow the return and firm establishment of national prosperity.

The greatest obstacle that steam railroads have to overcome if they are permitted to operate and expand as the traffic of the country grows, is the providing of adequate terminals. It is an easy matter to lay rails between important centers and to run trains over them. The difficulty is to provide terminals sufficiently large to permit the expeditious disposition of the traffic at terminal points. The growth of great cities and the consequent enormous increase in real estate values have made terminal property, to the extent that conditions demand, almost prohibitive, so that only the very richest railroads, and those whose credit is most firmly established, can hope to provide adequate facilities and reasonable conveniences for the public. In New York, Boston, Philadelphia, and Baltimore the situation in this respect has become so serious that the bulk of the grain business has been driven to Canadian ports where land is cheaper and facilities can be provided at more reasonable expense. The fact is, this problem has attained such magnitude that some profound students of transportation affairs are already discussing the feasibility of having the Government provide the terminal facilties for the railroads of the country in order to protect American commerce—but

this is the solution least to be desired because it would be the first actual step towards Government ownership of railroads.

The opening of this waterway, however, would greatly aid in the solution of this question because every point of the thousand mile harbor, stretching from Chicago to New Orleans would be accessible and feasible for the construction of great terminal facilities so that the trunk lines of the East and West could converge and interchange their traffic and load into ships which would serve Europe, Mexico, and the Central American States, the East Coast of South America and, through the Panama Canal, when it is completed, the West Coast of North and South America and the Far East. It will give the Mississippi Valley—the vast territory between the Rockies and the Alleghenies—a system of outlets for its products that ought to take care of the future needs for centuries to come. It will not injure the cities and seaports which are now the gateways of our export trade, nor will it affect the railroads in any other way than to aid them in developing the country. The effect of the Erie Canal and other waterways has not been to compete with the railroads but to supplement them and the Deep Waterway will be the greatest achievement in this direction which has ever been accomplished. With a population of ninety millions the railroads now have all the business they can well handle under normal conditions. It is at times, chiefly on account of the congestion at terminals, almost impossible for them to transport the traffic that comes to them without delays which may well cause complaint from the shipper. With this condition prevailing in times of ordinary prosperity, what will the situation be when our

population is doubled? The situation as it now stands is serious. However, the construction of this Deep Waterway, by furnishing an easy outlet for the present and prospective products of the great Middle West will remove the danger which now threatens of a traffic congestion that would affect practically every industry in the land.

The history of transportation by rail and water in the United States shows that the traffic created by the railroads has grown more rapidly than it has been possible to extend the lines of transportation on land, and that because of the governing conditions the railroads have absorbed the higher class of freight, while the cheaper classes which could bear only a low tariff have been turned over to the canals. This cheaper class of freight while not in itself profitable to the railroads must be transported to aid in the development of communities and industries, which, in turn, will produce an increased higher grade tonnage for the railroads. For instance, the construction of this canal will convert Kansas into a great cementmaking State. That State has great beds of rock that make first class cement but, on account of the long railroad haul and the fact that cement is a cheap product which cannot stand railroad charges for any considerable distance this industry has never been developed to anything like its fullest extent.

In the construction of the Panama Canal, as I happen to know from personal experience, the cement makers of Kansas were unable to successfully compete with the manufacturers in the East who were close to the seaboard and those of Europe, who were similarly situated. With the completion of this Deep Waterway, however, Kansas

will be able profitably to market millions of tons of cement where it now sells only hundreds of tons. railroads will not profit materially by the short haul to the canal, but the building up of the cement-making industry will encourage a vast line of other industries which will furnish high class and remunerative traffic to the rail-This is only one illustration of the manner in which canals not only aid the railroads, but assist in the development of the whole country. There will always be a large tonnage which the railroads cannot handle so far as the long haul is concerned at sufficiently low cost to enable the industries to thrive, and, on the other hand, there will be, in normal times, enough traffic which demands quicker service and can afford to pay more remunerative rates to keep the land lines of transportation busy.

The steam railroad is, and from the nature of things must always be the backbone of all transportation. It is the growth of the steam railroad that has made possible the marvelous development of our country. The canal aids the railroad in our national development, but it cannot alone carry the burdens of commerce. The railroads carry traffic to the canals and haul it away from them. If there is no freight for the railroads to carry, the bosoms of the canals will be unruffled. It is impossible therefore, to strike a blow at the railroads without hitting the canals, and, to go further with a plain statement of fact without making the impact felt to the uttermost limits of the nation.

What is the situation today respecting our American railroads? Are these great arteries of trade whose construction originally made possible the development of our

inland commerce in position to respond to the increasing demands which are continually being made upon them? Is this most representative of all American industries, which normally gives direct employment to 1,600,000 men, and indirectly gives employment to as many more through the industrial concerns which have no market except the railroads—is this industry, which, in normal times, purchases itself 25% of all the manufactured products of our country, and handles every day almost every item which enters into the daily life of our ninety millions of citizens, now in condition to properly perform the service necessary to insure our country's further growth? Does the daring spirit which inspired our pioneer railroad builders, the spirit which assumed the risk, conceived the processes, and defied the obstacles which beset the laying of the wire across the sea and the rail across the plains still exist? Have we as much of that alert, resourceful and self-confident individualism, which has been our greatest national asset today as formerly? coffers of the 2,000,000 American investors in American railroad securities open as readily as in the past to provide the funds necessary to keep our railroad development abreast of our traffic requirements? You gentlemen who are all deeply interested in the transportation affairs of the nation and are consequently familiar with the true situation, at once answer "No" to each of the questions just propounded. But what is the reason for all this? What is it that has taken the heart out of our Railroad Managers—that has chilled their laudable ambitions, that has frightened away our financial support, that has shadowed our horizon on every side, that has made us cease to act, and only wait? The answer is clear—it is the fear of

Government operation of our roads through Commissions who have no financial responsibility, is the thing which has produced these results. The idea of operation through Commissions is the illogical outcome of public measures at first preventive and justified, but which, with the swing of the pendulum, have become a dangerous interference in matters which have their private as well as public concern and which, if extended and continued, will portend disaster. And so I beg leave this morning before this audience of competent judges to state the case, as a business man talking to business men, or, better still, as an American citizen talking to his fellow citizens,—to state the case calmly and dispassionately in behalf of the commercial independence of our American railroads.

I think we will all agree that our future as a nation depends more than any other one thing on the character, extent and cost of the service our transportation lines render and that we have already shown that the interests of the rail and water lines are inseparably linked together so that whatever injures the one will to a greater or less extent cripple the other.

The railroads were built and developed by men who had a high order of courage, wisdom and faith, but who were, after all, men. Until earth becomes Paradise perfection will not dwell in man, so it is not surprising that the work of these men, while splendid from many points of view and unparalleled in the history of human endeavor, was not perfect. Selfishness crept in and grew and avarice sometimes overcame conscience. Then, too, conditions changed and policies which seemed wise and just in order to encourage the development of a new country, and without which great stretches of virgin soil now

peopled and prosperous would not have been settled in a hundred years, became questionable after the newly opened territory became self-sustaining.

Without any desire to excuse past wrongs, I submit that, when you consider the vast interests involved and the swiftness of their development, the wonder is not that evils crept into the railroad business, but that the evils were so few. Many of these the railroads discovered and corrected; others they discovered but found it impossible under the then existing conditions to correct. Take the question of rebates, for example. Do you suppose that any self-respecting railroad man of his own free will paid money out from his Company's treasury to secure traffic to which he was rightfully entitled? He did it because he was compelled to do it, or lose the business. The traffic which levied tribute in this way became so tremendous and the system so widespread that legislation was required to stop the payment of rebates. New laws were required, too, to put an end to all forms of unjust discrimination, to prevent the issue of fictitious securities, to standardize accounts and to compel publicity—not publicity of the kind to satisfy the inquisitiveness of a morbid curiosity, and which will entail millions of useless expense upon the corporations if allowed to stand—but a degree of publicity which will satisfy stockholders as to the manner in which their properties are being managed, and enable the Government, through its expert accountants, to make it certain that no laws are being violated. Such laws either have been or should be enacted, and almost every railroad man will not only welcome them, but will co-operate in securing their adoption.

But, going beyond these necessary laws, which provide

for wise regulation, the idea of physical operation of rail-roads by Commissions has come into being, and therein lies the greatest danger which our country faces today. The danger is not in the Commissions as they are now made up but in the law itself; in the fear on the part of the investors in railroad securities that the management of their properties will be taken out of the trained hands which now direct them and placed in charge of men who know nothing about railroad operation and have no financial responsibility and are accountable to no one but the man who appoints them, or to the political organization which procures their appointment. Railroads have no business in politics, but if the present tendency is not checked they will ultimately be thrown into the hands of politicians and become their prey.

To point out the possibilities of plunder through the injection of politics into railroad management would be to digress into details. It is the principle of the operation of railroads by Commissions which we are all interested in just now, and I insist that it is a grievous and vicious wrong, that it amounts in the end to confiscation of property without due process of law and that it is filled not with probabilities but with certainties of evil and that it is wholly un-American and a violation of the first principles of free Government. There are two fundamental features which must not be lost sight of in the discussion of this question, and the first is the human phase. What is the thing which has made our nation great? Individual effort. What has been the incentive behind this individual effort? The hope of individual reward. In no field of human endeavor has this hope been more fully realized than in the railroad field, with the result that men with

the best brain, with the most upright character, possessing ceaseless energy, infectious enthusiasm, and broadly constructive faculties have been attracted thither. Take away responsibility from these railroad officers, place them where they can neither initiate nor carry through what they do initiate, and you will destroy the element which has made the railroads and the United States what they are today.

The operation of our railroads has become so complex that it presents scientific problems more difficult of solution than those of any manufacturing concern—yet men, born full fledged over night, talk glibly of the most difficult and technical railroad problems and how to master them. Who would think of operating the great steel works of the country, or any other line of industry involving less complicated features, through Commissions? Yet the idea is just as rational and the theory contains just as much of right as does the operation of railroads by Commissions. I do not claim a monopoly of brains for American railroad managers, but they have in fifty years constructed more than 50% of the railroad mileage of the world; they are giving a service superior to that of any other country at from one-half to one-third the cost, and, while doing these things, they have paid more than double the wages that are paid anywhere else on earth. willing to stand on that record and let the people decide, after they have considered it, whether it is safe or wise to risk a change and to legislate away the very foundations on which human success is based.

There is a financial as well as a human side to the question, and this is of importance to you, as canal builders, because of the inter-relation of land and water transpor-

tation. Because of this hostile legislation, national and state, and the consequent fear on the part of the owners of railroad securities that they will not be allowed to manage their own properties, the railroad development of the country, which should now be making great strides, while there is plenty of labor, to prepare for the return of prosperity, is at a complete standstill, with distressing effects which are felt in every line of business. I think you all understand, without my saying it here, that there can be no return of prosperity that will stay with us until the railroads are fairly treated.

We have in New York State today practical operation of transportation lines by Commission and I find, from speaking on the same subject in the West before, that it is not generally understood that this situation really exists as an actuality. The New York Public Service Law has placed its Commissions (we have two, one for New York City and one for the rest of the State) practically in the shoes of the Directors of the railroad corporations throughout the State and has given them complete control of the corporate affairs. The Commissions may compel railroads to change or add to their structures; to change or add to the operations of trains; to change their rates, or to change the kind and quantity of rolling stock; their terminal facilities, motive power or any other property or device used. State regulation under such a statute is in effect State prohibition of new enterprise and State operation of existing railroads. What is the result? portation development in New York is not paralyzed—it is dead. This is not because of anything that the men who now constitute these Commissions have done; they have been prudent, careful, and honest, but the menace is in the law. We do not know who the next Commission will be or what it will do. Some of the present Commissioners themselves, have talked of recommending such a change in the Public Service Law as will remove those things which are dangerous and which act as an effective barrier to further development, and leave in the law only those things which make for reasonable regulation. Until legitimate regulation is substituted for the physical operation which is now authorized there can be no railroad progress in New York or any other State which has Rather than see this anomalous conanalogous laws. dition become general and permanent, I, as a railroad man, would prefer Governmental ownership and operation of the railroads, dangerous as that would be to the maintenance of our liberties, because operation without ownership not only destroys the initiative by destroying the hope of reward to the individual officers and dries up the fountains of money supply, which are necessary to keep the railroad development abreast of the traffic requirements, but also because of the fact that the Commissions which operate the railroads have no financial responsibility and are not held accountable for results. Therefore, extravagance and graft and ruin must eventually ensue; whereas, if the Government bought the railroads and paid for them, it would of necessity be responsible to the people for a fair return on the investment, and, unless our whole theory of government should prove a failure, it would have to hire trained men to operate the properties and place on those men responsibility for such management as would satisfy the people that the properties were efficiently and economically administered.

There is now no scarcity of money. Millions of dollars

are being loaned in New York every week at 1 per cent, but none of it is going into railroad securities nor for railroad extensions, nor will any of it go there until the holders of it are assured of a fair return on their investment with the promise that, under proper regulations, they will be allowed to manage their own business. In other words, the commercial independence of the railroads can not be interfered with nor any of the technical details of operation assumed unless the vital interests of the public are jeopardized.

Do not misunderstand me! I believe in supervision or regulation by Commission. I think that the welfare of the country and the welfare of the railroads demand the existence of such bodies and that they be clothed with powers sufficiently broad to enable them to effectually protect the public welfare, so that nothing I say herein is a reflection on the doctrine of regulation by Commissions; but, as I have said, the great danger lies in those sections of the laws which go beyond the point of regulation and place the physical operation of the railroads in the hands of men, who, however honest and high minded they may be, are wholly lacking in the training and experience which such authority demands.

There is no one who has greater confidence than I in the high purpose of the members of the Interstate Commerce Commission, yet, as showing the effect on commerce of untrained men when they go too far into operating details, it may not be out of place to briefly review the two most important acts of that Commission. Its first important order relating to international trade required that freight rates from Asiatic ports to inland American points should be published for thirty days before they

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went into effect. When a shipper in Shanghai or Hong Kong asked for a rate on a consignment of goods to Chicago or St. Louis he wanted it that day; he would not wait until the next day or next week, and certainly not until next month. The effect of this order of the Commission, in place of widening the markets of the world to our manufactures and thus aiding the railroads in developing the commerce of the country was to practically drive American ships from the waters of the Pacific and to drive American railroads from the rapidly growing markets they were developing and serving.

The first important order of the Interstate Commerce Commission having to do with the making of domestic rates directed a reduction of 15 per cent in the rates from the Atlantic seaboard to Kansas City. Immediately on the issuance of this order, Chicago, St. Louis and other Mississippi River common points took it up and objected vigorously to having the seaboard moved 15 per cent nearer to Kansas City unless they received a proportionate advantage. The next development was the discovery that the State of Missouri had a Railroad Commission of its own, that Kansas City and St. Louis were both in Missouri and that not only all traffic passing between those two cities locally, but also all traffic passing between the two rivers was affected by the orders of the Missouri Commission. This Commission said to the railroads: "If you obey the order of the Interstate Commerce Commission and bring the Atlantic seaboard 15 per cent closer to Kansas City, thus upsetting the geographical line established by nature, we will immediately order a 15 per cent reduction in rates between St. Louis

and Kansas City so as to keep the cities relatively where they have been since the first railroads were built."

This fact being reported to the Interstate Commerce Commission, that body informed the railroad representatives that the attitude of the Missouri Commission was something with which they had nothing to do, and that it was the business of the railroads to fight it out with the local Commission, adding however, that if the Missouri Commission carried out its threat and reduced the rates between St. Louis and Kansas City, the Interstate Commerce Commission would again reduce the rate from the seaboard to Kansas City by 15 per cent. Now, what will If the Interstate Commerce Commission holds to this attitude and the Missouri Commission stands on its rights the result will inevitably be that every line east of the Missouri River will be forced into bankruptcy, and in the last analysis the rates to these cities will be relatively where they are today because they are now based on geographical and commercial conditions, which always have and always will control and prescribe them.

The truth is that the railroads of this country do not, as a matter of fact, make the rates. They are permitted to promulgate them but the rates to and between communities are established by the commercial interests of those communities, which are constantly watching to see that no other community secures an advantage over them in the matter of freight tariffs.

If this country is to continue to grow, transportation development must at least keep abreast of our industrial progress, and transportation by water cannot be wisely extended except as transportation by land advances. No way has been discovered of building real railroads except

with money, and money will not go into railroad construction at the behest of legislation, nor from patriotic or political promptings nor for any other reason than that it is a secure interest bearing investment. If the investment is not attractive the money will go elsewhere, into fields where it will be welcomed and not interfered with. The solution of the problem of continuing railroad development and creating additional facilities which should now be under active construction therefore rests in giving the railroads a square deal. That means a prohibition of all rate discrimination but full and complete authority to fix their own rates and thus obtain, under normal conditions, a fair return on the investment. means the right under proper regulation to operate their own properties. That is all that is needed but that is absolutely essential.

The trend of thought of those who have studied the question closely and dispassionately favors the repeal of those laws which go into the scientific details of management in providing for railroad operation by Commission and a return to the policy of a sane regulation of the transportation lines. There need be no fear that rates will be too high or that they will be so adjusted as to work any injustices if they are fixed by trained and experienced men. Railroad men well understand that their properties can prosper only when the communities they serve are prosperous.

Railroads are not entitled to an unreasonable profit, but they are entitled to a reasonable return for the service they render. The law of service and compensation, as regards the railroads, is as inexorable as the law of supply and demand. When good citizens buy silk, they expect to pay silk prices. If you insist on getting silk for calico prices and, through threats of Congressional or legislative influence strong enough to secure the enactment of a law applying the cheaper price to the more expensive article, the effect will be to drive the silk merchant out of business. With his competition removed the price of calico will be advanced and, in the end, you may have to pay silk prices for calico.

The moral is that we should be willing to pay for what we demand in transportation as well as anything else. The railroads should be, and generally are, willing to render good service, proportionate to the population and its demands, and the public should be willing to pay a fair price for it. If this doctrine of live and let live was the universal rule of conduct, many of the ills from which we are now suffering would disappear.

Statistics show that the manufacturers' profit runs from 15 to 40 per cent and that the average profit from agriculture is 10 per cent. The records of the Interstate Commerce Commission reveal the interesting fact that during 1906, the last year for which these figures are available, 33 per cent of American railroad securities paid no dividends at all, while the average dividend rate on the remaining two-thirds was 6.03 per cent, which is an average of 4 per cent on all outstanding railroad securities. How many manufacturers would continue in business if their margin of profit was not greater than that? In this connection, it may be well to state that in the opinion of the most fairminded experts, the railroad systems of the country as a whole could not be duplicated for their present outstanding securities, so that whatever

the conditions may have been in the past the average returns which railroad securities may earn today are on a fair basis of values.

Let me make it plain to you, however, that what I have said has not been spoken in any spirit of querulousness, nor of retaliation, I have simply stated a few facts with the idea of calling your attention to the injustices and dangers of railroad operation by Commissions and showing you where this tendency will lead if not checked. We are all in the same boat. Your first love is the waterways, mine is the railways, but our interests are identical, and we will finally stand or fall together. You desire to raise money to build this great inland harbor, which will serve the billions of people who will come and go on this Continent after we slumber in earth's bosom, and which will prove an eternal monument to your courage, wisdom and foresight, and, as a railroad man, I wish you Godspeed in your efforts.

We desire to raise money to develop a system of inland highways unparalleled in efficiency and cheapness of cost for service rendered anywhere on earth, to serve the same great mass of humanity, which your enterprise will serve, and we ask your aid and co-operation in our efforts.

I do not believe that this tendency toward operation of railroads by Commission which now threatens is deeprooted in the public mind, nor do I have any fear that it will long remain after the subject is thoroughly studied and understood. The man with a worthy cause who has pinned his faith to the sound common sense and the high moral sense of the American people has never in the end been disappointed.

There are many signs that our people are beginning to ask themselves what is the matter with the transportation situation? Is it not possible we have gone too far in our efforts to correct obvious abuses? Is there not danger that necessity of control has not given way to mere love of control? Has not the attempt to divorce the railroad business from economic principles begun to paralyze the vital nerve of progress? Had we not better face about and get back to sane regulation, which, under general laws, will leave to the Railroad Manager a free field and an unfettered hand? All these are hopeful signs—and so, when the facts are all presented and the arguments are closed, I, for one, am willing without fear of the result to leave the verdict to the court of last resort, which is located, not in the chambers of any Commission, or in any temple of justice, but which is lodged in the minds and hearts of the 90,000,000 of people who constitute the great American Republic.



